

DEPARTMENT OF STATE REVENUE

Information Bulletin #60
Income Tax
March 2023
Effective Date: January 1, 2020 (retroactive)
(Replaces Bulletin #60, dated July 2021)

SUBJECT: Taxation of Unemployment Compensation Benefits

REFERENCES: [IC 6-3-1-3.5](#); [IC 6-3-2-10](#)

DISCLAIMER: Information bulletins are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules, and court decisions. Any information that is not consistent with the law, regulations, or court decisions is not binding on either the department or the taxpayer. Therefore, the information provided herein should serve only as a foundation for further investigation and study of the current law and procedures related to the subject matter covered herein.

SUMMARY OF CHANGES

Only nonsubstantive, technical changes have been made to this bulletin. It has been primarily changed to reflect updated formatting.

INTRODUCTION

Generally, unemployment compensation benefits are taxable at the federal level. However, for the 2020 taxable year, the American Rescue Plan Act of 2021 enacted a retroactive change under IRC § 85(c), allowing an exclusion of unemployment compensation of up to \$10,200 per individual, provided that the taxpayer (single or married) had a federal adjusted gross income of less than \$150,000 prior to inclusion of unemployment compensation.

Pursuant to [IC 6-3-1-3.5\(a\)\(33\)](#), as enacted by HEA 1436-2021, Indiana required that any excluded unemployment for 2020 be added back in determining Indiana adjusted gross income. However, a threshold of \$12,000 for single taxpayers and \$18,000 for married taxpayers filing jointly, determined by adding federal adjusted gross income and any unemployment compensation excluded from federal gross income for 2020, determines the taxability of unemployment compensation benefits in Indiana.

CALCULATION OF DEDUCTION FROM FEDERAL ADJUSTED GROSS INCOME

For years other than 2020, the following worksheet should be used to calculate the Indiana deduction, if qualified.

- | | | |
|--|--|-------|
| (1) Net unemployment compensation received in the tax year | | _____ |
| (2) Federal adjusted gross income including net unemployment compensation | | _____ |
| (3) Enter \$12,000 if single or \$18,000 if married filing jointly | | _____ |
| (4) Subtract line 3 from line 2. If zero or less, enter zero. | | _____ |
| (5) Enter 50% of the amount on Line 4 | | _____ |
| (6) Taxable unemployment compensation for Indiana purposes: enter the amount from Line 1 or Line 5, whichever is smaller | | _____ |
| (7) Subtract Line 6 from Line 1. | | _____ |

For 2020 only, the following worksheet should be used:

1.	Unemployment compensation included on IT-40, line 1 or on IT-40PNR, Schedule A, line 36B (do not include any unemployment compensation issued by the U. S. Railroad Retirement Board)	1	
2.	Unemployment compensation excluded from federal AGI (do not include any unemployment compensation issued by U. S. Railroad Retirement Board). If filing an IT-40PNR, only use the portion of unemployment compensation excluded from federal AGI earned while an Indiana resident	2	
3.	Add lines 1 and 2	3	
4.	Federal adjusted gross income from federal Form 1040/1040SR, line 11	4	
5.	Unemployment compensation excluded from federal AGI	5	
6.	Add lines 4 and 5	6	

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7.	Enter \$12,000 if single, or \$18,000 if married filing a joint return	7	
8.	Subtract line 7 from line 6. If zero or less, enter -0-	8	
9.	Enter one-half of the amount on line 8 (divide line 8 by the number 2)	9	
10.	Taxable unemployment compensation for Indiana purposes: enter the amount from either line 3 or line 9, whichever is smaller	10	
11.	Subtract line 10 from line 3. Carry this amount to Schedule 2, line 10 (or Schedule C, Line 10 if filing Form IT-40PNR). If zero or less, enter -0-	11	

Enter the amount from Line 7 (Line 11 for the 2020 worksheet) on the appropriate line of Schedule 2 of Form IT-40 or Schedule C of Form IT-40PNR.

If you were married but are filing separately and you lived with your spouse at any time during the year, you must enter 0 on Line 3 of the worksheet (Line 7 of the 2020 worksheet). However, if you were married and filing separately and lived apart from your spouse the entire year, you may use the single taxpayer income limitation of \$12,000 on Line 3 (Line 7 of the 2020 worksheet).

For 2020 only, the department has attempted to correct electronically-filed returns where a discrepancy in the amount of income or deduction occurred due to the late filing of the return. However, some electronically filed returns may not have had the discrepancy automatically corrected. In addition, paper-filed returns with a discrepancy may not have the discrepancy automatically corrected.

For paper-filed returns, if the unemployment compensation (including any addback) and/or the Indiana-specific deduction for unemployment compensation was incorrectly reported, an amended return will be required to correct any issues. For electronic returns that incorrectly reported the unemployment compensation and/or the Indiana-specific deduction for unemployment compensation, an amended return should be filed only if you have not been notified by the department by July 6, 2021. If an amended return is filed that reports excluded unemployment compensation, please use Code 120 to report any federally-excluded unemployment compensation subject to Indiana tax.

If you have any questions concerning this bulletin, please contact the Tax Policy Division at taxpolicy@dor.in.gov.

Robert J. Grennes, Jr.
Commissioner

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